

VZCZCXRO0425
RR RUEHLH RUEHPW
DE RUEHIL #2767/01 3211349
ZNR UUUUU ZZH
R 171349Z NOV 09
FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 6000
INFO RHEFDIA/DIA WASHINGTON DC
RHEFSNG/HMSNG WASHINGTON DC
RUZDHTR/HOTR WASHINGTON DC//USDAO ISLAMABAD PK//
RUWSMXI/AMC INTEL CEN SCOTT AFB IL//INO/J2-J//
RUEPVAA/CDR JSOC FT BRAGG NC//J2/HSE//
RHMFISS/CDR USCENTCOM MACDILL AFB FL//CCJ2-JCH/HSE//
RHLFABN/CDR USESUCOM ABNCP VAIHINGEN GE//ECJ2/ECJ3/ECJ5-A//
RHMFISS/CDR USSOCOM MACDILL AFB FL//SOJ2/HSE//
RHMFIUU/CDR USTRANSCOM TCJ2 SCOTT AFB IL
RHMFISS/CDRUSAREUR HEIDELBERG GE//AEAGB-IAD//
RUEAIIA/CIA WASHINGTON DC//DDI/OEA//
RUEPVAA/COMJSOC FT BRAGG NC
RHEFDIA/DIA WASHINGTON DC//DHO-3//
RHEFDIA/DIA WASHINGTON DC//MIO-4//
RUETIAA/DIRNSA FT GEORGE G MEADE MD//M112/S2132HT//
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK
RUEKJCS/JOINT STAFF WASHINGTON DC//J2/J5-EUR//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DEKA/FCTP//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DXOA/TAAO//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG-CE-CM/IANG-GS-AA//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG/CE/CECM//
RUCXONI/ONI WASHINGTON DC//32/211//
RUEALGX/SAF WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC//USDP-ISA-ADMIN//
RULWAAM/STRATCOM IDHS-90 OFFUTT AFB NE//J22123//
RUEPGAA/US SURVEY DIV SHAPE BE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RUEHIL/USDAO ISLAMABAD PK
RUCQSAB/USSOCOM INTEL MACDILL AFB FL
RUEHLO/AMEMBASSY LONDON 1777
RUEHNE/AMEMBASSY NEW DELHI 5736
RUEHBUL/AMEMBASSY KABUL 1144
RUEHLH/AMCONSUL LAHORE 8135
RUEHKP/AMCONSUL KARACHI 2533
RUEHPW/AMCONSUL PESHAWAR 7182
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC

UNCLAS SECTION 01 OF 05 ISLAMABAD 002767

SENSITIVE
SIPDIS

REF: ISLAMABAD 2539

E.O. 12958: N/A

TAGS: [EAGR](#) [ECON](#) [ETRD](#) [EFIN](#) [EINT](#) [EINV](#) [ENRG](#) [PREL](#) [PK](#)

SUBJ: BI-WEEKLY REPORT ON THE ECONOMIC ISSUES,04 NOVEMBER 2009

- - - - -
TOP STORIES
- - - - -

1.(SBU) Government to evaluate efficiency of Rental Power Plant Projects (RPP) before disbursing advance payments. On October 19, The News reported that the government will now consider issues such as the condition of equipment used at RPP facilities and the cost effectiveness of their projects before issuing them mobilization advances. This development comes at the insistence of the Asian Development Bank, which is currently conducting an energy audit of the efficiency and cost effectiveness of the RPPs. (Comment: In theory the GOP's original rental policy framework requires companies to demonstrate their level of efficiency as a prerequisite to participating in the bidding process. In practice this has not been the case, as the five rental power plants that were recently awarded mobilization advances by the GOP were awarded contracts on a "first

come first served" basis. There are strong indications that the RPPs still bidding for contracts may raise a complaint with the International Court of Arbitration should the GOP seek to enforce the policy proposed by the ADB.)

12. (SBU) The Government meets three International Monetary Fund (IMF) targets. On October 21, Business Recorder reported that during the first quarter of the 2009-2010 fiscal year, the GOP successfully met three of the budgetary and monetary targets set by the IMF. The GOP has reduced its borrowing stocks, capped its budgetary borrowing from the central bank at \$13.61 billion and the State Bank of Pakistan achieved its two major targets of containing net domestic assets and increasing net foreign assets. Net foreign asset currently stand at \$5.76 billion compared to the IMF target of \$4.8 billion and net domestic asset stand at \$13.69 billion compared to IMF target of \$14.39 billion. (Comment: While this represents a significant achievement for the GOP, it has yet to increase tax collection, an IMF priority and a key to maintaining fiscal discipline and macroeconomic stability.)

13. (SBU) Finance Ministry formally rejects Pakistan State Oil (PSO) entreaties to collect power sector arrears on its behalf. Business Recorder reported on Oct 27 that PSO has \$843 million in outstanding receivables from the power sector with \$216 million in letter of credit (LCs) coming due on November 13. According to the report, PSO received a letter from the Ministry of Finance denying financial

ISLAMABAD 00002767 002 OF 005

assistance and urging PSO to collect payment and "deliver fuel supplies on a commercial basis," presumably to those who pay. PSO representatives indicated they would meet with the Ministries of Finance and Petroleum and Natural Resources to reverse the Ministry of Finance decision and ensure the flow of fuel oil to the power sector.

14. (SBU) Current account deficit drops to \$462 million. The Daily Times reported that the current account deficit declined by 89.14 percent during the first quarter of the 2009-2010 fiscal year. This drop has stabilized the foreign exchange reserves and the exchange rate. The report attributes this fall to a significant decrease in Pakistan's trade deficit and a sharp increase in remittances. Over the past year the trade deficit decreased from \$4.51 billion to \$2.75 billion and remittances increased from \$1.879 billion to \$2.33 billion. (Comment: The steady decline in the value of exports are a major risk to continued improvement in the current account deficit and balance of payments. This issue also poses a risk to foreign exchange reserves and has the potential to destabilize the exchange rate.)

BANKING AND FINANCE

15. (SBU) The Karachi Stock Exchange (KSE) completed the development and regulatory work on the Bond Automated Trading System (BATS). The KSE has yet to set the go-live date for the trading of Debt Market Securities (listed term finance certificates) through BATS. The KSE asked members to apply now to get their BATS terminal installed/activated by submitting a request to the exchange, along with a refundable security deposit of approximately \$1800. (Comment: Our KSE contact confirmed the report and said that the Bond Trading Platform is another KSE milestone in introducing trading of debt securities to the exchange. KSE has been holding a series of presentations to acclimatize the market, asset management companies and banks with BAT, and is receiving requests from institutions.)

16. (SBU) The National Clearing Company Limited (NCCPL) to set up a debt market protection fund. On October 31, Business Day reported that the NCCPL will establish a "debt market protection fund,"

ISLAMABAD 00002767 003 OF 005

scheduled to go live in early November. According to the NCCPL, the company will setup and maintain a debt market protection fund and every market clearing member will contribute approximately \$3000 to the pool. Clearing members, acting as brokers, will be allowed to participate in the debt market with minimum net capital balance of approximately \$300,000, and will only be allowed to participate for listed term finance certificates (TFCs). The member's aggregate debt exposure cannot exceed 10 times its net capital balance. (Comment: The details on the NCCPL debt market protection fund is on the web: <http://www.nccpl.com.pk/news/details.php?para m=NjYTcVYc>.)

STOCK MARKET

7 (SBU) The Karachi Stock Exchange (KSE)-100 Index ended the week of October 30 at 9159.18, flat over the previous week's close. Overall market capitalization slightly increased to \$31.74 billion, with a net foreign portfolio investment inflow of \$9.8 million. Despite strong corporate results, security concerns continued to dampen market performance. (Comment: Our KSE contact said the in spite of serious security concerns, the benchmark index did not fall below the 9,000-barrier as was widely speculated. This suggested that the current downward drift may be done and the lows could attract new purchases next week. Secretary of State Clinton public statements on economic cooperation could be a driving force in a market surge.)

18. (SBU) Lahore Stock Exchange (LSE):Security concerns sent the Lahore Stock Exchange (LSE) Index tumbling 6.9 percent October 19 to 21. After the flurry, the market stabilized and trading was average the rest of the month.

POWER AND WATER

19. (SBU) Tarbela and Mangla reservoir levels drop after the start of water releases for sowing wheat. The Business Recorder reported

ISLAMABAD 00002767 004 OF 005

that the Indus River System Authority cautioned provincial governments that the supply of water for winter crops could be 35 percent short of demand. (Comment: Low reservoir levels at this point in the growing season could seriously impact the wheat crop. Pakistan needs to build more water storage capacity.)

10. (SBU) Work on Indus Refinery stopped due to security concerns. On October 20, the News reported that work on the Indus Refinery Limited (IRL) was suspended after the project's sponsors backed out as a result of the country's deteriorating security situation. The IRL is now seeking new investors to complete the construction project. IRL was expected to be operational by mid-2009, but political turmoil and the downgrading of the country's credit rating, left management unable to secure financing for the project. (Comment: Indus Refinery Limited confirmed the report and said that the management is still looking for new investors and negotiating with the banks for financing. The company is open to U.S. investment.)

AGRICULTURE

11. (SBU) Government procurement of rice set to begin the first week of November. Contacts from the Pakistan Agricultural Storage and Services Corporation (PASSCO), the federal purchaser of agricultural

commodities, have expressed concerns about their limited financing and storage capacity after procuring record stocks of wheat last summer. (Comment: Government intervention in rice markets is just as counterproductive as it is in wheat and other commodity markets. Newspapers are already running stories about unscrupulous middle men and corrupt government agents denying farmers the benefit of the government price support.)

TEXTILE

¶12. (SBU) Power loom operators strike over the supply and price of cotton yarn. The protest is focused in Faisalabad District, the heart of Punjab's textile belt. According to press reports approximately 20 percent of the nations' power loom industries are

ISLAMABAD 00002767 005 OF 005

currently involved in the strike, which started on October 27. Loom owners and laborers are demanding government intervention, including a prohibition on yarn exports, to ensure an ample supply of cheap yarn. Industry interest groups remain divided over whether to support the strike. Hosiery and readymade garment groups supported the loom owners' demands. However, the All Pakistan Textile Mills Association (APTMA), which represents the larger, more sophisticated mills, opposed the strike, and cotton growers vowed to fight any export ban. (Comment: Industry pressure could lead to more government subsidies and supports rather than a much needed restructuring of the lower end of the textile sector. Eighty seven percent of Pakistan's 259,000 looms are in cottage or small businesses. They have limited access to capital, frequently lack professional management, and are ill-equipped to compete for supplies with international cotton and yarn buyers.)

PATTERSON